

Part II

Board of Governors of the Federal Reserve System

A. Introduction

The Board of Governors of the Federal Reserve System is the federal supervisor and regulator of all U.S. bank holding companies and of state-chartered commercial banks that are members of the Federal Reserve System. In addition, the Federal Reserve has responsibility for the supervision of all Edge Act and agreement corporations; the international operations of state member banks and U.S. bank holding companies; and the operations of foreign banking companies in the United States. In overseeing these organizations, the Federal Reserve primarily seeks to promote their safe and sound operation and their compliance with laws and regulations.

As part of its efforts to promote sound practices and to improve the quality and consistency of supervision, the Federal Reserve has continued its extensive program of regulatory review to help minimize the burden of regulation on banking organizations. The objectives of the program are to ensure that all regulations, existing and proposed, represent the best course of action; to afford interested parties the opportunity to participate in the design of regulations and to comment on them; and to ensure that regulations are written in simple, clear language. Staff members regularly review Federal Reserve regulations for their adherence to these objectives and their consistency with the mandates of section 303(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 (CDRI), to the Regulatory Flexibility Act (which requires that consideration be given to the economic consequences of regulation on small business), and to other statutes providing guidance on the regulatory process.

Since the filing of the original CDRI section 303 study¹, the Federal Reserve has worked assiduously in continuing to carry out the goals of section 303. We are pleased to report here an overview of the significant accomplishments of the Federal Reserve in furthering the goals of regulatory burden relief and regulatory uniformity since the filing of the 1996 report. These significant accomplishments are followed by a summary of the status of each Federal Reserve regulation regarding our efforts in achieving these objectives.

¹ *Joint Report: Streamlining of Regulatory Requirements* (September 23, 1996).

B. Major Accomplishments

1. Risk-focused Supervision Framework

In 1997, the Federal Reserve formally adopted a framework for risk-focused supervision of large complex institutions and parallel frameworks for community banks and shell bank holding companies. The main objective of this program is to sharpen the focus of the supervisory process on those business activities that pose the greatest risks to the soundness of a banking organization and the financial system more generally. Central to accomplishing this objective is an assessment of an organization's management systems to identify, measure, monitor, and control its risks. Such an assessment allows supervisors to identify and address weaknesses on a timely basis. It can also be more cost-effective for supervisors and less burdensome to banking organizations.

In June 1999, the Federal Reserve introduced enhancements to its existing risk-focused framework by providing more specific guidance on the applicability of the program to large complex banking organizations (LCBOs). These enhancements are intended to provide a flexible framework that can respond to changes taking place in the financial system and adapt to the risk profile of individual banking organizations, while still achieving all key supervisory objectives. The LCBO program is expected to also improve supervisory coordination and efficiency and lessen burden on banking organizations.

The Federal Reserve has also taken steps to increase the efficiency of its state member bank consumer compliance examinations. In January 1999, the Board adopted a risk-focused supervisory approach designed to utilize Federal Reserve System consumer compliance examination resources more effectively and to reduce the examination burden on the banks supervised by the Federal Reserve. This program incorporates several components and includes: new examination procedures that target the areas of greatest risk to a state member bank; a monitoring program which enables Federal Reserve staff to keep abreast of changes in a bank's compliance risk profile between examinations; and an outreach program designed to promote compliance in a setting outside of the examination or monitoring function.

2. Regulatory Reviews

Regulation Y (Bank Holding Companies and Change in Bank Control, 12 CFR Part 225) is the regulation the Board has adopted to implement the requirements of the Bank Holding Company Act, the Change in Bank Control Act, and provisions of the Federal Deposit Insurance Act. Subsequent to the completion of the CDRI review in 1996, the Board adopted and implemented comprehensive changes to Regulation Y. These revisions served to streamline the applications process for bank acquisitions by bank holding companies, to eliminate the approval requirements for nonbanking proposals by well-run bank holding companies, and to streamline the notice process for most other nonbanking acquisitions. The Board also updated and expanded its list of nonbanking activities that are permissible for bank holding companies, eliminating many restrictions and conditions on the performance of those activities.

These changes to Regulation Y included implementing the regulatory burden reduction provisions of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). In addition, the Board revised its policy statement governing small bank holding companies to reduce the burden of the approval process for proposals to form small holding companies and by small holding companies to acquire additional banks. Moreover, the Board adopted several exceptions to the tying rules that govern bank holding companies to permit banking organizations broader discretion to provide product discounts to customers that purchase multiple products from the organization.

In 1998, the Board also comprehensively revised and reorganized **Regulation H** (Membership of State Banking Institutions in the Federal Reserve System, 12 CFR Part 208) after public comment. In general, the amendments serve to clarify and reduce the burden of compliance with Subpart A of Regulation H. The amendments modify the procedures for membership and branch applications, incorporate a new section designed to provide guidance to banks regarding permissible investments in securities, and expand the circumstances under which the Board will consider waivers of conditions of membership. In addition, the amendments eliminate existing requirements regarding disclosure of financial condition and generally provide a definition of branch that is consistent with OCC regulations and decisions. The amendments also serve to eliminate a number of related interpretations.

The Board also has eased the burden associated with its **Regulation O** (Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks, 12

CFR Part 215) since the filing of the original Section 303 Report. In November 1998, the Board revised Regulation O, which limits how much and on what terms a bank may lend to its own insiders and insiders of its affiliates, to allow such insiders to obtain loans under a company-wide employee benefit plan. This revision also simplified the procedures for a bank's board of directors to exclude executive officers and directors of affiliates from policymaking functions of the bank and thereby from the restrictions of Regulation O. In addition, by an amendment effective April 1, 1997, the Board modified the exemption under Regulation O for individuals not engaged in major policymaking functions of the bank or its affiliates previously available only to executive officers of affiliates. The exemption now includes directors of affiliates as well, subject to the condition imposed by statute that the affiliate not account for more than 10 percent of the consolidated assets of the bank's parent holding company.

Regulation T (Credit by Brokers and Dealers, 12 CFR Part 220) is one of several of the Board's securities credit-related regulations. In December 1997, the Board took final action on the two sets of Regulation T amendments proposed in 1996. Some of the major changes were: (1) Regulation T was substantially shortened and simplified by reducing the number of accounts from nine to five. (2) A complex system for determining the margin status of debt securities based on the rating, registration, and trading location of the security was replaced with a simple determination that all securities other than equity securities are marginable on a "good faith" basis. (3) The Board eliminated publication of its quarterly "List of Marginable OTC Stocks" by relying on the listing requirements of the Nasdaq Stock Market and reduced the delay in granting margin status to foreign equity securities by making its "List of Foreign Margin Stocks" a non-exclusive method for making this determination. (4) The Board eliminated the collateral requirements for loans of securities (which are covered by policies and regulations of the SEC, Department of Labor, and federal banking agencies, depending on the counterparty involved) and provided greater flexibility regarding the timing and purposes of these transactions.

In addition to these major regulatory revisions, the Board also **eliminated several of its regulations** since the filing of the 1996 report, as detailed below:

The Board's **Regulation R** (Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933, 12 CFR Part 218) was rescinded in 1998. After a careful review of the comments received in response to a Board proposal to abolish the rule, the Board determined that it was not necessary to have a substantive regulation solely to restate a statutory provision. The Board also removed a

formally-issued exemption to Regulation R in light of subsequent interpretations of the underlying statutory provision.

Regulation V (Loan Guarantees for Defense Production, 12 CFR Part 245) was abolished in late 1998 as obsolete, also after opportunity for comment. The regulation, meant to facilitate the financing of contracts or other operations deemed necessary for national defense production under the Defense Production Act of 1950, no longer served any useful purpose, and had not been invoked for several decades.

Regulation G (Securities Credit by Persons Other than Banks, Brokers or Dealers, 12 CFR Part 207) also was rescinded. Lenders formerly subject to Regulation G now fall under the purview of a revised and liberalized Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks, 12 CFR Part 221).

Regulation P (Minimum Security Devices and Procedures for Federal Reserve Banks and State Member Banks, 12 CFR Part 216) also was eliminated as an unnecessary standalone regulation and its substantive provisions were incorporated into the revised Regulation H.

3. Electronic Delivery of Disclosures

Several of the Board's **consumer regulations** – **E** (Electronic Funds Transfer, 12 CFR Part 205), **DD** (Truth in Savings, 12 CFR Part 230), **M** (Consumer Leasing, 12 CFR Part 213), **Z** (Truth in Lending, 12 CFR Part 226), and **B** (Equal Credit Opportunity, 12 CFR Part 202) – require disclosures to be provided to consumers in writing. Under these regulations, the requirement that disclosures be in writing has been presumed to require that paper documents be provided. However, under many laws that call for information to be in writing, information in electronic form now is considered to be “written.” Information produced, stored, or communicated by computer is also generally considered to be a writing, where visual text is involved.

In connection with its CDRI review, the Board determined that using electronic communication to deliver to consumers information that is required by federal consumer financial services and fair lending laws could effectively reduce regulatory compliance cost without adversely affecting consumer protections. And, for some consumers who prefer receiving information electronically, using electronic communication for financial services would provide added convenience.

In May 1996, after a comprehensive review of the regulation, the Board proposed to amend Regulation E to permit financial institutions to provide disclosures by sending them electronically. In March 1998, the Board issued an interim rule under Regulation E and proposals under Regulations B, M, Z, and DD. The interim rule and proposed amendments allow financial institutions, creditors, and others to provide disclosures electronically, if the consumer agrees. This would include, for example: initial disclosures of terms and conditions of accounts, leases, and loans; periodic statements of account activity; notices about error resolution; and notices of consumer rights such as the right to cancel certain home-secured loans. The Board is expected to take further action in the third quarter of 1999.

C. Summary Status Reports: Progress in Implementing CDRI Goals Since the 1996 Section 303 Report

Title: Regulation A (Extensions of Credit by Federal Reserve Banks, 12 CFR Part 201)

Subject Matter: This regulation implements various sections of the Federal Reserve Act by establishing rules under which Federal Reserve Banks may extend credit to depository institutions and others. It outlines the conditions under which Federal Reserve Banks will grant adjustment, seasonal, and extended credit to depository institutions and emergency credit to individuals, partnerships, and corporations that are not depository institutions.

Action/Status: The Board completed a review of the regulation in January 1996 and removed an obsolete interpretation. In July 1999, the Board amended the regulation to implement a special lending program to accommodate liquidity needs of certain depository institutions during the century date change period.

Title: Regulation B (Equal Credit Opportunity, 12 CFR Part 202).

Subject Matter: This regulation prohibits creditor practices that discriminate against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to contract), the fact that all or part of the applicant's income derives from a public assistance program, or because the applicant has exercised any right under the Consumer Credit Protection Act.

Action/Status: In connection with its CDRI 303 review, the Board initiated a comprehensive review of the regulation, and published an advance notice of rulemaking in early 1998. Based on comments received and its own analysis, in July 1999 the Board published proposed revisions to Regulation B. The amendments would lift a prohibition against collecting information about applicant characteristics such as national origin and gender; require record retention for certain prescreened solicitations for credit; extend record retention requirements to 25 months for most types of business credit; and retain certain exemptions from the regulation, with adjustments. Board staff expects to review the comments and publish a final rule in 2000.

Title: Regulation C (Home Mortgage Disclosure, 12 CFR Part 203).

Subject Matter: This regulation implements the Home Mortgage Disclosure Act, which is intended to provide the public with loan data that can be used: i) to help determine whether financial institutions are serving the housing needs of their communities, ii) to assist public officials in distributing public-sector investments so as to attract private investment to areas where it is needed, and iii) to assist in identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

Action/Status: In connection with its CDRI review, the Board initiated a comprehensive review of the regulation, and published an advance notice of rulemaking in early 1998 [63 FR 12327]. Board staff has reviewed the comments and expects to publish a proposed rule in summer 1999 and a final rule in 2000.

Title: Regulation D (Reserve Requirements on Depository Institutions, 12 CFR Part 204).

Subject Matter: This regulation concerns reserves that depository institutions are required to maintain for the purpose of facilitating the implementation of monetary policy by the Federal Reserve System.

Action/Status: The Board reviewed Regulation D and adopted a rule simplifying and updating Regulation D in December of 1996 [61 FR 69025].

Title: Regulation E (Electronic Fund Transfers, 12 CFR Part 205).

Subject Matter: This regulation implements the Electronic Fund Transfer Act (EFTA) and establishes the basic rights, liabilities, and responsibilities of consumers who use electronic money transfer services and of financial institutions that offer these services.

Following a comprehensive review of Regulation E, in 1996 the Board issued a final rule that simplifies and updates the regulation, together with a revised staff commentary [61 FR 19669]. As an outgrowth of the review, the Board issued in 1996 a proposed rule to address modified rules affecting time periods for resolving disputes related to electronic fund transfers (EFTs); electronic communications; and regulatory coverage of stored-value cards and other new payment products. In September 1996, Congress imposed a nine-month moratorium on the implementation of any amendments to Regulation E concerning stored-value products. Additionally, Congress directed the Board to conduct a study on whether alternatives to regulation – such as allowing competitive market forces to shape the development and operation of the products – could more efficiently achieve the objectives of the EFTA. The Board submitted its study to Congress in March 1997. The study examined the costs and benefits of various alternatives to regulation, but did not endorse or recommend any specific course of action.

Action/Status: The Board issued in 1998 an interim rule to permit the use of electronic communication to provide disclosures, if the consumer agrees (discussed above, pages II-5 and II-6). The Board also published in 1998 a final rule that addressed time periods for investigating point-of-sale debit claims and foreign-initiated transactions [63 FR 52115]. No specific date has been set for action on the regulatory coverage of stored-value cards, reflecting the sense of Congress to proceed cautiously in any rulemaking that might impede the development of such products.

Title: Regulation F (Limitations on Interbank Liabilities, 12 CFR Part 206).

Subject Matter: This regulation implements section 38 of the FDIC Improvement Act of 1991. The purpose of the regulation is to limit the risks that the failure of a depository institution would pose to insured depository institutions.

Action/Status: Regulation F is structured in a manner that minimizes the burden associated with the rule. No revisions to the regulation are recommended.

Title: Regulation G (Securities Credit by Persons Other than Banks, Brokers or Dealers, 12 CFR Part 207).

Subject Matter: This regulation was issued pursuant to the Securities Exchange Act of 1934. It requires registration of and restricts certain actions by lenders who make loans secured by margin stock and who are not regulated under Regulation T (which concerns such lending by brokers and dealers) or Regulation U (which concerns such lending by banks).

Action/Status: On April 1, 1998 [63 FR 2806], Regulation G was eliminated, and lenders formerly subject to the regulation were made subject to a revised Regulation U (see item below, page II-14).

Title: Regulation H (Membership of State Banking Institutions in the Federal Reserve System, 12 CFR Part 208).

Subject Matter: This regulation contains requirements in a variety of supervisory areas including eligibility for membership in the Federal Reserve System, capital adequacy, prompt corrective action, real estate lending standards, payment of dividends, procedures under the Bank Secrecy Act, and a number of other areas.

Action/Status: The Board reviewed Regulation H and adopted a revised Regulation H in 1998 that reduced burden, and simplified and updated its requirements [63 FR 37637]. See discussion, page II-3.

Title: Regulation I (Issue and Cancellation of Stock of Federal Reserve Banks, 12 CFR Part 209).

Subject Matter: This regulation implements provision of the Federal Reserve Act concerning ownership of stock in Federal Reserve Banks by members of the Federal Reserve System.

Action/Status: The Board reviewed Regulation I and a simplified and updated version was adopted in 1998 [63 FR 37659].

Title: Regulation J (Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfer Through Fedwire, 12 CFR Part 210).

Subject Matter: This regulation implements various provisions of the Federal Reserve Act, which authorizes the Federal Reserve Banks to collect checks, act as clearing houses, and perform other payment services for depository institutions. It contains the rules governing check collection and funds transfer through the Federal Reserve Banks.

Action/Status: The Board amended Regulation J, effective January 2, 1998, to accommodate the Federal Reserve Banks' adoption of a single-account structure for interstate banks [62 FR 48166 (1997)]. The amendments make check collection through Reserve Banks and account management more efficient for interstate banks.

Title: Regulation K (International Banking Operations, 12 CFR Part 211).

Subject Matter: This regulation implements a number of statutes regarding international banking including the International Banking Act, the Federal Reserve Act, and the Bank Holding Company Act, as well as the Bank Export Services Act and the International Lending Supervision Act. Subpart A of the regulation governs the foreign investments and activities of all member banks of the Federal Reserve System, Edge and agreement corporations, and bank holding companies. Subpart B governs the U.S. activities of foreign banking organizations. The remaining subparts of the regulation address export promotion and certain issues regarding international lending by U.S. banking organizations.

Action/Status: On December 18, 1997, the Board published comprehensive proposed revisions to Regulation K [62 FR 68424]. The Board received numerous public comments on the proposal. Staff is continuing to analyze the comments and review the proposal.

Title: Regulation L (Management Official Interlocks, 12 CFR Part 212).

Subject Matter: This regulation is issued under the provisions of the Depository Institutions Management Interlocks Act. The purpose of the regulation is to foster competition by generally prohibiting a management official of a depository institution or depository holding company from also serving as a management official of a depository institution or depository holding company if the two organizations are not affiliated and are very large or are located in the same local area.

Action/Status: The review of this regulation was undertaken by an interagency task force. It was revised prior to the submission of the 1996 CDRI report [61 FR 40293 (1996)].

Title: Regulation M (Consumer Leasing, 12 CFR Part 213).

Subject Matter: This regulation implements the consumer leasing portions of the Truth in Lending Act. The purpose of this regulation is to assure that lessees of personal property are given meaningful disclosures of lease terms, to limit the ultimate liability of lessees in leasing personal property, and to require meaningful and accurate disclosures of lease terms in advertising.

Action/Status: A comprehensive review resulted in the publication of a revised Regulation M (1996) and official staff commentary (1997). Future regulatory review will occur in accord with the Board's policy of periodically reviewing its regulations.

Title: Regulation N (Relations with Foreign Banks and Bankers, 12 CFR Part 214).

Subject Matter: This regulation enumerates the rules governing relationships and transactions between Federal Reserve Banks and foreign banks or bankers or a foreign state.

Action/Status: No regulatory changes are contemplated at this time.

Title: Regulation O (Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks, 12 CFR Part 215).

Subject Matter: This regulation governs any extension of credit by a member bank to an executive officer, director, or principal shareholder of the member bank, a bank holding company of which the member bank is a subsidiary, and any other subsidiary of that bank holding company. Regulation O also applies to any extension of credit by a member bank to a company controlled by such a person and a political or campaign committee that benefits or is controlled by such a person. In addition, the regulation enumerates reporting requirements regarding extensions of credit by a member bank to its executive officers or principal shareholders.

Action/Status: The Board has adopted several amendments to Regulation O [61 FR 57769 (1996), 62 FR 13294 (1997)]. See discussion at II-3.

Title: Regulation P (Minimum Security Devices and Procedures for Federal Reserve Banks and State Member Banks, 12 CFR 216).

Subject Matter: These provisions implement the Bank Protection Act of 1968, which requires each Federal bank supervisory agency to promulgate rules establishing minimum standards regarding the installation, maintenance, and operation of security devices and procedures.

Action/Status: These provisions were incorporated into the revised Regulation H, at 12 CFR 208.61, and effective October 1, 1998, Regulation P was eliminated as a separate rule [63 FR 37665].

Title: Regulation Q (Interest on Deposits, 12 CFR Part 217).

Subject Matter: This regulation prohibits the payment of interest on demand deposits by member banks and other depository institutions within the scope of the regulation.

Action/Status: The Board and the other agencies recommended to Congress removal of the prohibition against paying interest on demand deposits in 1996. If this recommendation were adopted, Regulation Q could be repealed.

Title: Regulation R (Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933, 12 CFR Part 218).

Subject Matter: The regulation implements Section 32 of the Glass-Steagall Act. Section 32 prohibits officer, director, and employee interlocks between member banks and firms “primarily engaged” in underwriting and dealing in securities, and authorizes the Board to exempt from this prohibition, under limited circumstances, certain interlocks by regulation. Regulation R restated the statutory language of Section 32, and set forth the only exemption adopted by the Board since passage of the Glass-Steagall Act. The Board also codified in the Code of Federal Regulations (CFR) a series of 14 interpretations of the substantive provisions of Section 32 and the regulation.

Action/Status: After a comprehensive review of Regulation R, the Board on July 3, 1996, proposed to remove Regulation R from the CFR, and to remove a Board interpretation that applied the prohibitions of Section 32 to bank holding companies. With respect to removing Regulation R, the Board believed that the existing exemption in the regulation was no longer necessary in view of interpretations of the Glass-Steagall Act that have been developed since 1969. Upon careful review of the comments received in response to the proposed rule, the Board determined that the exemption is no longer necessary, and that it was not necessary to have a substantive regulation solely to restate a statutory provision. Accordingly, the Board rescinded Regulation R and removed the bank holding company interpretation in December 1996.² See also discussion at II-4 and II-5.

Title: Regulation S (Reimbursement for Providing Financial Records; Recordkeeping Requirements for Certain Financial Records, 12 CFR Part 219).

Subject Matter: This regulation implements the Right to Financial Privacy Act concerning the rates and conditions under which payment is made by a government authority to a financial institution for providing records pursuant to that Act (Subpart A). It also implements the requirements of the Annunzio-Wylie Anti Money-Laundering Act of 1992 that the Board and the Treasury prescribe record-keeping regulations regarding domestic and international funds transfers (Subpart B).

Action/Status: This regulation was last updated on December 20, 1996, and no further revisions are recommended at this time.

² To avoid any confusion on this matter, the Board inserted an additional interpretation into the CFR to clarify that the prohibitions of Section 32 do not apply to interlocks that would fall within the current exemption.

Title: Regulation T (Credit by Brokers and Dealers, 12 CFR Part 220).

Subject Matter: Regulation T implements the requirement in Section 7 of the Securities Exchange Act of 1934 that the Board prescribe rules with respect to the amount of credit that may be extended on a security. It covers extensions of credit by broker-dealers and imposes initial margin requirements and payment rules on securities transactions.

Action/Status: Amendments to Regulation T were adopted in 1996 after the Board proposed revisions for public comment in 1995 [60 FR 22763]. See also discussion at II-4. In order to complete its comprehensive review of the margin regulations, the Board issued an Advance Notice of Proposed Rulemaking and Request for Public Comment at the same time that it took final action on the previous proposals [63 FR 2840 (1998)]. Comment on proposed amendments is expected to be solicited in 1999.

Title: Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks, 12 CFR Part 221).

Subject Matter: This regulation was issued pursuant to the Securities Exchange Act of 1934. It imposes credit restrictions on banks that extend credit for the purpose of buying or carrying margin stock if the credit is secured directly or indirectly by margin stock.

Action/Status: The Board sought public comment on all aspects of Regulation U in December 1995 [60 FR 20386]. In light of the adoption in 1996 of final amendments to Regulation T, and the enactment later that year of legislative changes to the Board's margin authority, the Board twice sought public comment on additional Regulation U issues [61 FR 20399, 60168 (1996)]. The Board took final action on all of the proposed Regulation U amendments in late 1997 [63 FR 2806 (1998)], including the merging of Regulation G into Regulation U, effective April 1998. Although the number of lenders subject to the revised Regulation U increased, the scope of the securities covered under the regulation was reduced, lenders were given greater flexibility to extend credit against certain other securities, and outdated restrictions were removed.

In order to complete its comprehensive review of the margin regulations, the Board issued an Advance Notice of Proposed Rulemaking and Request for Public Comment at the same time that it took final action on the previous proposals [63 FR 2840 (1998)]. Comment on proposed amendments is expected to be solicited in 1999.

Title: Regulation V (Loan Guarantees for Defense Production, 12 CFR Part 245).

Subject Matter: The Board promulgated this regulation to implement the Defense Production Act of 1950. The purpose of the regulation was to facilitate the financing of contracts or other operations deemed necessary to national defense production.

Action/Status: The Board repealed Regulation V as obsolete effective October 9, 1996 [61 FR 52875 (1996)]. See discussion at II-5.

Title: Regulation X (Borrowers of Securities Credit, 12 CFR Part 224).

Subject Matter: This regulation implements Section 7(f) of the Securities Exchange Act of 1934, as amended. It applies the Board's margin regulations to United States borrowers or to foreign persons acting on behalf of United States borrowers who obtain credit outside the United States to purchase or carry United States securities, or within the United States to purchase or carry any securities.

Action/Status: The current review began in late 1997, with the issuance of an Advance Notice of Proposed Rulemaking and Request for Public Comment [63 FR 2840 (1998)]. Comment on proposed amendments is expected to be solicited in 1999.

Title: Regulation Y (Banking Holding Companies and Change in Bank Control, 12 CFR Part 225).

Subject Matter: This regulation implements parts of the Bank Holding Company Act, the International Banking Act, the Change in Bank Control Act, and the International Lending Supervision Act. The principal purposes of this regulation are to regulate the acquisition of control of banks by companies and individuals, to define and regulate the nonbanking activities in which banking companies and foreign banking organizations with United States operations may engage, and to set forth the procedures for securing approval for such transactions and activities.

Action/Status: In 1997, the Board adopted and implemented comprehensive changes to Regulation Y [62 FR 9319]. See page II-3 for further discussion.

Title: Regulation Z (Truth in Lending, 12 CFR Part 226).

Subject Matter: This regulation implements the Truth in Lending Act (TILA). The purpose of this regulation is to promote the informed use of consumer credit by requiring disclosures about its terms and cost. The regulation also gives consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes.

Action/Status: Since 1996, the Board has held public hearings regarding the home-equity market, and on the effectiveness of TILA, including the Home Ownership and Equity Protection Act of 1994, in protecting the rights of consumers, particularly low- and moderate-income consumers. In addition, the Board has extensively reviewed TILA and Regulation Z's rules relating to closed-end mortgage loans. In 1996, Congress directed the Board and the Department of Housing and Urban Development (HUD) to simplify and improve the disclosures given in transactions subject to TILA and the Real Estate Settlement Procedures Act (RESPA)³, including the timing for providing those disclosures.⁴ The agencies were also asked to create a single TILA-RESPA disclosure statement, if feasible, that would meet the purposes of the acts. These changes were to be made by regulation, if possible; if statutory amendments were necessary, the Board and HUD were to make legislative recommendations.

Following public comment on the matter, the agencies concluded in 1997 that meaningful change could come only through legislation [62 FR 15624] and in 1998 submitted to Congress a joint report concerning reform to TILA and RESPA. The joint report provided recommendations for statutory changes concerning TILA's finance charge and APR; timing rules for providing disclosures; and the need for additional substantive protections.

The staff considered issues of broader reform in the context of preparing the joint report on closed-end mortgage loan disclosures. Should significant legislative reform occur (affecting mortgage loans or other types of consumer credit), considerable revisions to the regulation would follow. In any case, in 2000 the Board expects to review Regulation Z's rules concerning adjustable rate mortgages and to publish an advance notice of proposed rulemaking that seeks public comment on the appropriate scope of further review of Regulation Z in view of legislative initiatives that may have been undertaken.

³ 12 USC § 2601.

⁴ Section 2101 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, Pub. L. No. 104-208, 110 Stat. 3009.

Title: Regulation AA (Unfair or Deceptive Acts or Practices, 12 CFR Part 227).

Subject Matter: This regulation explains the procedures for consumers to lodge complaints regarding a state member bank. The regulation also defines unfair or deceptive acts or practices in connection with extensions of credit to consumers. Such unfair or deceptive acts or practices are prohibited under the Federal Trade Commission Act. In connection with its CDRI Section 303 review, the Board determined no revisions were necessary.

Action/Status: A request for comments on whether further guidance through staff guidelines was considered in 1996. An internal review determined further action was not warranted. Future regulatory review will occur in accord with the Board's policy of periodically reviewing its regulations.

Title: Regulation BB (Community Reinvestment, 12 CFR Part 228).

Subject Matter: This regulation implements the Community Reinvestment Act. The purposes of this regulation are to encourage state member banks to help meet the credit needs of their local community or communities; to provide guidance to state member banks as to how the Board will assess the records of state member banks in satisfying their continuing affirmative obligations to help meet the credit needs of their local communities, including low-and moderate-income neighborhoods, consistent with the safe and sound operation of those banks; and to provide for taking into account those records in connection with certain applications.

Action/Status: The review of this regulation was undertaken by an interagency task force and is discussed in the interagency portion of this update report. See discussion at I-8.

Title: Regulation CC (Availability of Funds and Collection of Checks, 12 CFR Part 229).

Subject Matter: This regulation implements the Expedited Funds Availability Act. It requires banks to make funds deposited into transaction accounts available for withdrawal within specified periods of time, requires banks to disclose their availability policies to their customers, and contains rules to expedite the collection and return checks by banks.

Action/Status: The Board conducted a comprehensive review of Regulation CC and adopted clarifying and technical amendments in 1995 and 1997 [60 FR 51669 (1995); 62 FR 13801 (1997)]. More recently, the Board has requested comment on the feasibility of reducing the availability schedules for nonlocal checks [63 FR 69027 (1998)] and providing flexibility to banks to experiment with electronic check return systems [64 FR 9105 (1999)]. The Board expects to take action on these proposals by October 1999.

Title: Regulation DD (Truth in Savings, 12 CFR Part 230).

Subject Matter: This regulation implements the Truth in Savings Act of 1991. The purpose of this regulation is to enable customers to make informed decisions about accounts at depository institutions. This regulation requires depository institutions to provide disclosures so that consumers can make meaningful comparisons among depository institutions. Compliance with Regulation DD became mandatory in 1993. In an internal review in 1995, it was determined that further rulemaking in 1995 was not warranted.

Action/Status: A staff review is expected to commence with publication of an advance notice of proposed rulemaking in 2000 and is expected to be completed by 2002.

Title: Regulation EE (Netting Eligibility for Financial Institutions, 12 CFR Part 231).

Subject Matter: This regulation was issued under the authority of section 402 of the FDIC Improvement Act of 1991. It expands the Act's definition of financial institution to allow more financial market participants to avail themselves of the netting provisions set forth in the Act. It does not affect the status of financial institutions specifically defined in the Act.

Action/Status: The Board completed a review of this regulation in 1996 and made a clarifying amendment at that time [61 FR 1273 (1996)]. No further revisions are recommended.

Title: Rules Regarding Availability of Information (12 CFR Part 261).

Subject Matter: This regulation sets forth the kinds of information made available to the public pursuant to the Freedom of Information Act and other procedures, the rules of procedure for obtaining documents, and the rules of procedure with respect to confidential information.

Action/Status: Subparts A and B, implementing the Freedom of Information Act, were revised on November 19, 1997 [62 FR 54359, 54361 (1997)], in accordance with the Electronic Freedom of Information Act Amendments of 1996, to provide better access to records in electronic format. Subpart C is undergoing review for possible revisions.

Title: Rules Regarding Access to Personal Information Under the Privacy Act of 1974 (12 CFR Part 261a).

Subject Matter: This regulation implements the provision of the Privacy Act of 1974 with regard to the maintenance, protection, disclosure, and amendment of records contained with the systems of records maintained by the Board.

Action/Status: This regulation was last updated in 1995. The Board is currently reviewing this regulation with a view towards clarification and simplification of the terms and expects to complete this review by the end of 1999.

Title: Rules Regarding Public Observation of Meetings (12 CFR Part 261b).

Subject Matter: This part carries out the policy of the Government in the Sunshine Act that the public is entitled to the fullest practicable information regarding the decision making process of the Board while at the same time preserving the rights of individuals and the ability of the Board to carry out its responsibilities.

Action/Status: The rule adheres closely to the Act's statutory language and no revisions are contemplated at this time. Board staff intends to continue streamlining and automating its internal procedures implementing the Act and the Board's regulation. In that regard, the Board in June 1998 streamlined its internal procedures for processing routine Sunshine Act requests regarding individual Board meeting agenda items, thereby reducing by one-third the levels of review needed in determining an individual agenda item's Sunshine Act status. In addition, the Board, in November 1997, posted on its public web site the complete text of its Sunshine Act regulation as well as a "Guide to Meetings," which contains an explanation of Board meeting procedures and appropriate links to related Board web pages.

Title: Rules of Procedure (12 CFR Part 262).

Subject Matter: This part was issued pursuant to section 552 of Title 5 of the United States Code, which requires that every agency shall publish in the Federal Register statements of the general course and method by which its functions are channeled and determined, rules of procedure, and descriptions of forms available or the places at which forms may be obtained.

Action/Status: In 1994 [59 FR 54809] and 1998 [63 FR 58620], the Board's Rules of Procedure were amended to correct cross references to amendments of Regulation H. No other changes are contemplated at this time.

Title: Rules of Practice for Hearings (12 CFR Part 263).

Subject Matter: This regulation prescribes uniform rules of practice and procedure for many areas: 1) rules applicable to adjudicatory proceedings required to be conducted on the record after opportunity for hearing under certain statutory provisions which are enumerated in the subpart; 2) rules governing formal adjudication; 3) rules for assessment and collection of civil money penalties; 4) rules applicable to suspension or removal of an institution-affiliated party where a felony is charged or proven; 5) rules of procedure for issuance and enforcement of directives to require a state member bank or bank holding company to maintain adequate capital; 6) rules relating to general practice before the Board on one's own behalf or in a representational capacity; 7) rules regarding claims under the Equal Access to Justice Act; and 8) rules for issuance and review of orders pursuant to prompt corrective action provisions of the Federal Deposit Insurance Act.

Action/Status: Following interagency review, the Board approved technical, clarifying, and substantive changes to its rules in May 1996 [61 FR 20338 (1996)]. No additional changes are contemplated at this time.

Title: Employee Responsibilities and Conduct (12 CFR Part 264).

Subject Matter: This regulation prescribes standards of conduct and responsibilities for Board employees and special employees of the Board and governs statements reporting employment and financial interests of the Board's employees and special employees of the Board.

Action/Status: This regulation was replaced in November 1996 by 5 CFR 6801, a new supplemental ethics rule issued jointly by the Board and the Office of Government Ethics, which establishes rules relating to financial interests and transactions, borrowings and extensions of credit, employment relationships of immediate family members, and outside employment.

Title: Reserve Bank Directors – Actions and Responsibilities (12 CFR Part 264a).

Subject Matter: This regulation elucidates how Reserve Bank directors are to be chosen, what type of activities directors are prohibited from participating in, and when exceptions to such prohibitions will be granted.

Action/Status: This regulation was replaced by the Office of Government Ethics' regulation, 5 CFR 2640, effective January 17, 1997 [61 FR 6683 (1996)]. The OGE rule, which interprets 18 U.S.C. § 208(b)(2), describes those circumstances under which the prohibitions contained in the federal conflict of interest statute, 18 U.S.C. § 208(a), could be waived.

Title: Rules Regarding Foreign Gifts and Decorations (12 CFR Part 264b).

Subject Matter: This regulation implements the 1977 Amendments to the Foreign Gifts and Decorations Act which restricts Board Members' and employees' acceptance of foreign gifts and decorations. The restrictions apply to gifts whether they are tangible or intangible. Different rules apply depending on whether the gift has only "minimal value." There are also rules regarding acceptance of decorations from foreign governments.

Action/Status: No changes have been recommended since the original 1996 Section 303 Report.

Title: Rules Regarding Delegation of Authority (12 CFR Part 265).

Subject Matter: This part details the responsibilities that the Board has delegated. Pursuant to section 11(k) of the Federal Reserve Act, the Board may delegate, by published order or rule, any of its functions other than those relating to rulemaking or pertaining principally to monetary and credit policy to Board members and employees, Reserve Banks, or administrative law judges. The Board may make all rules and orders necessary to enable it effectively to perform the duties, functions, or services specified in the Federal Reserve Act.

Action/Status: Staff has drafted a revision of the rules that repeals outdated provisions and clarifies or simplifies other provisions. Board action was taken in November 1998 to expand the authority of the Director of the Division of Consumer and Community Affairs to perform certain administrative duties and to review certain technical matters under the Board's consumer statutes and regulations. Board action on other aspects of the delegation rules awaits changes to substantive Board regulations that, in turn, may require further revisions to the delegation rules.

Title: Limitations on Activities of Former Members and Employees of the Board
(12 CFR Part 266).

Subject Matter: This regulation enumerates limitations on former members and employees of the Board with respect to participation in matters connected with their former duties and official responsibilities while serving with the Board.

Action/Status: No changes have been made. This regulation cannot be revised until such time as the Office of Government Ethics publishes its regulation interpreting the post-employment conflict of interest statute, 18 U.S.C. § 208(b)(2).

Title: Rules Regarding Equal Opportunity (12 CFR Part 268).

Subject Matter: This regulation sets forth the Board's policy, program, and procedures for providing equal opportunity to Board employees and applicants for employment without regard to race, color, religion, sex, national origin, age, or physical or mental disability. It also sets forth the Board's policy, program, and procedures for prohibiting discrimination on the basis of physical or mental disability in programs and activities conducted by the Board. In addition, it specifies the circumstances under which the Board will hire or decline to hire persons who are not citizens of the United States, consistent with the Board's operational needs, the requirements and prohibitions of the Immigration Reform and Control Act of 1986, as amended, and other applicable laws.

Action/Status: These rules are drafted to conform as closely as possible with the complaint processing rules of the Equal Employment Opportunity Commission (EEOC). After the EEOC publishes its pending revisions to 29 CFR Part 1614 as a final rule, the Board's Rules will be reviewed as necessary.

Title: Federal Reserve Policy Statement on Payments System Risk (4 Fed. Res. Reg. Serv. 9-1000 et seq.)

Subject Matter: This policy statement comprises several policies designed to reduce payments system risk. The policies are addressed primarily to depository institutions that incur intraday overdrafts in their Federal Reserve accounts and to large-dollar private-sector settlement systems.

Action/Status: Development of the payments system risk policy is evolutionary and under constant review. Most recently, the Board revised its policy for privately operated multilateral settlement systems (63 FR 34888 (1998)] to provide more clarity and flexibility in its application.
